Victims of Fraud: Comparing Victims of White Collar and Violent Crime

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Mental health professionals have focused attention on the psychiatric sequelae of criminal victimization. This article compares the experience of white collar and violent crime victims on several parameters including statistical risk of victimization and psychiatric outcome after victimization. Emphasis is given to data obtained from interviewing 77 victims of a fraudulent financial scheme.

In recent years sociologists, criminologists, and mental health professionals have focused attention on crime victims. Mental health professionals have begun to describe the emotional distress and recovery patterns following criminal victimization. The majority of studies have examined the sequelae of violent crimes such as rape.[1] Little research has been conducted on the victims of white collar crimes.

This article reviews the literature on the psychiatric sequelae of criminal victimization, with particular emphasis on white collar victimization. Forms of white collar victimization will be described, and the similarities and differences between the victims of white collar and violent crime will be discussed. Emphasis is given to data obtained from interviewing 77 victims of a fraudulent financial scheme.

White Collar Crime

White collar crime is defined by the Department of Justice as "nonviolent crime for financial gain committed by means of deception" and includes fraud, forgery, and embezzlement.[2] Fraud takes many forms including work at home schemes, securities fraud, illegal franchises and distributorships, land fraud, illegal commodities, home improvement schemes, funeral abuses, and pension and insurance fraud.[3]

Many frauds are illegal investment schemes such as swindles which take the form of Ponzi (pyramid) schemes. In a Ponzi (pyramid) scheme clients place their money in supposedly low risk investments. Early investors report sub-

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stantial gains to friends and coworkers who then eagerly invest capital. In fact, this capital is used to pay interest to those early investors who 'test' the credibility of the scheme by withdrawing their money. Many of these schemes last for years. Most of the funds are never invested but are in fact diverted.[4–6]

An important element of a Ponzi scheme is an affinity group, that is a group of friends and coworkers who trust each other and communicate regarding their investment earnings. The confidence man who perpetrates the scheme is usually a member of the affinity group. For example, a disproportionate number of these swindles occur in church-affiliated groups. The Utah attorney general's office investigates approximately 80 such swindles per year, the majority occurring among and perpetrated by members of the Church of Latter Day Saints (Mormons). The numbers of investors bilked range from 50 to 1200 per fraud with losses as high as $67 million per scheme (Mike Hines, Utah Attorney General's Office, personal communication). The number of these schemes nationwide is unclear but is estimated to be in the hundreds with $40 billion bilked from investors annually.[7] Although swindling comprises only three percent of all white collar felony dispositions, the magnitude of the problem may be underestimated, as a single confidence man can victimize hundreds of investors and victims are frequently embarrassed to report their losses.[2]

Four Ponzi schemes perpetrated in Oregon between 1984 and 1986 are described in Table 1.[8] We recently completed a study of 77 victims of one of these Ponzi schemes. A description of this fraud illustrates the complexity and the extent of deceit in these schemes. In April of 1985, 450 investors in First Colonial Bank of the Marshall Islands (Pac Rim, Inc.) were notified that the bank was fraudulent and their investments were lost. Eighty percent of the investors were employees or recent retirees of a northwest electronics firm with an average length of employment at that firm of 19.4 years. The perpetrator of the fraud was a 23-year employee of the firm who had been a high level manager and president of the company's credit union. After he retired in 1982 he received a license to sell securities from the Securities and Exchange Commission and made several successful investments for his former coworkers. In 1983 the electronics firm, seeking to decrease its work force, offered generous lump sum cash retirement packages to longtime employees in exchange for early retirement. Many retirees placed their money in Pac Rim. Forty-six percent of the Pac Rim victims lost more than $40,000, and 14 percent of the victims lost more than $100,000 in this scheme. A detailed description of the psychiatric disorders experienced by the victims following this loss and the methodology used to examine this group has been presented elsewhere.[9]

Comparison of White Collar and Violent Crime Victims

Victims of white collar crime can be compared with victims of violent crime

Table 1
Ponzi Schemes in Oregon, 1984 to 1986*

Affinity Group	Number of Investors	Confidence man	Bank	Losses
Tektronix Inc.	450	Former Tektronix manager	First Colonial Bank of Marshall Islands (Pac Rim, Inc.)	$5–7 million
Oregon Department of Education	60	Former Department of Education manager	Merchants International Bank Ltd.	$3 million
Mormon Church	100	Bishop of Mormon Church	International Bank of South Pacific	$3.5 million
Seventh Day Adventist Church	100+	Church member	Republic Overseas Bank	$4.5 million

* Source: Portland Oregonian.[8]

(rape, robbery, and assault) on several parameters, including statistical risk of victimization, psychiatric outcome and recovery rates after victimization, and the effects of crime-related variables on subsequent psychiatric disorders. We will use data obtained from interviews with the Pac Rim victims for illustrative purposes. The experience of the Pac Rim victims shares the common elements of deceit and financial loss with other white collar victims. However, our equation of the experience of the Pac Rim victims with that of other white collar victims remains speculative pending further studies in this area; to our knowledge the study of Pac Rim victims and Blum's study of con game victims represent the only studies of the psychiatric outcome after white collar victimization.[10]

Statistical Risk of Victimization

Table 2 compares some risk factors associated with white collar and violent victimization. Victims of the Pac Rim scheme were demographically homogeneous: all were Caucasian, lived in a three county area surrounding Portland, and 83 percent earned more than $20,000 in 1984. Eighty-seven percent were married at the time of the interview. The average age was 53, and 88 percent were between 40 and 65 years of age. Forty-eight percent were female. Sixty percent had some college education, and 33 percent were somewhat or very religious. Blum, in a study of 24 individuals who were deceived in non-Ponzi frauds (which were perpetrated by strangers and did not involve an affinity group), also found that victims tended to be older (median age 60 to 69 years), disproportionately female, predominantly widowed, and deeply religious. Unlike the Pac Rim victims, his group was predominately lower middle class and somewhat less educated than the city average.[10]

Persons with demographic characteristics similar to those of the Pac Rim victims are at low risk for violent crimes such as rape, robbery, and assault. The risk of violent crime decreases with increasing financial assets. The segment of the population with an income greater

Table 2
Risk Factors for Violent and White Collar Victimization

Risk Factor	White Collar Crime		Violent Crime
	Ponzi Schemes[9]	Other Frauds[10]	
Social network	Strong	Weak	Varies
Age	Middle-aged	Elderly	Young adult[11]
Sex	F = M	F > M	F > M (rape)[12] M > F (other violent crimes)[11]
Yearly income	83% > $20,000/year	Lower than city average	69% < $15,000/year (rape)[12]
Mental disorder	None	Depression	Major mental illness, alcohol and drug abuse[15]
Marital status	83% married	Predominantly widowed	14% married (rape)[12]
Religiosity	33% religious	Very religious	Unknown

than $15,000 per year has half of the criminal victimization risk of those with an income less than $9000 per year.[11] Sixty-nine percent of rape victims come from households with income less than $15,000 per year.[12] Increasing age is also associated with decreased risk of violent victimization. Persons over the age of 50 are at the lowest risk for violent victimization with one-sixth of the risk for this kind of victimization relative to those between the ages of 16 and 24.[11] On the other hand, the elderly, although making up 11 percent of the population, constitute 30 percent of the victims of fraudulent investment schemes.[3] Females over age 65, although equally at risk for white collar crime in our study and predominantly at risk in Blum's study, have only half the risk of violent crime as males in the over age 65 group.[13] Despite the increased risk of rape in females, males have a higher risk of violent victimization in all age groups due to higher rates of such crimes as homicide and assault.[11]

Pac Rim victims were compared to 66 age, sex, and residential area matched controls. Names of controls were obtained from a list of 20,000 drivers generated by the Oregon Department of Motor Vehicles. Victims and controls were interviewed using the Diagnostic Interview Schedule (DIS) which generates current and lifetime prevalences of psychiatric disorders as defined by DSM-III.[14] Among the Pac Rim victims, cognitive impairment, alcohol abuse, and a history of mental disorder prior to the loss were rare and were not risk factors for financial deception. There were no differences between Pac Rim victims and their controls in lifetime prevalences of any DSM-III disorder. Ten percent of Pac Rim victims had seen a mental health professional at any time in their lives, not significantly different from controls. Blum also found that alcohol abuse was rare in his study of victims of frauds not based on affinity groups. He observed that many appeared depressed and lonely, but he did

not distinguish between depression occurring before or after victimization.[10]

In contrast, mental disorders, cognitive impairment, and alcohol abuse have all been demonstrated to be risk factors for violent criminal victimization.[15] Several studies show that many rape victims, the most well characterized of the criminally victimized, have previous histories of psychiatric care, although this was not confirmed in a more recent controlled study.[16–21] Alcohol abuse and intoxication have been implicated as risk factors for rape.[16, 17, 20, 22, 23]

Psychiatric Outcome and Recovery

Twenty-nine percent of the Pac Rim victims experienced a major depressive episode as defined by DSM-III criteria in the first 20 months after their loss as compared to two percent of controls during the same time period (McNemar's test, $p < .0001$). Five Pac Rim victims developed suicidal ideation after the loss. Generalized anxiety disorder was found in 45% of the Pac Rim victims as compared to 15% of the controls (McNemar's test, $p = .004$). Blum was also impressed by depressive characteristics in the fraud victims he interviewed.[10]

The emotional and behavioral consequences of violent criminal victimization have been studied, especially for rape in women and assaults in the elderly. However, different approaches have been used in describing these groups with the emphasis on emotional sequelae in the rape victim, and fear and avoidance in the elderly. Rape victims have been the most extensively characterized. Of course, when comparing fraud victims with rape victims one must recognize the vast demographic differences that exist between the groups. In studies of rape victims rarely are subjects stratified by age, and studies of male rape are rare.

Frank *et al.* used the DIS to evaluate 60 female rape victims with an average age of 23. Thirty-eight percent met the DSM-III criteria for major depressive disorder (MDD) in the first six weeks after the rape, and 82 percent met DSM-III criteria for generalized anxiety disorder (GAD). (DSM-III duration criteria were removed which may increase the prevalence of the disorder.) Thus, GAD was the most frequently experienced disorder in both Pac Rim victims and rape victims, followed by MDD. Use of alcohol did not change following the stressor in either group.[21]

Atkeson *et al.*, in their study of rape victims, found that levels of anxiety and depression, although initially high, were not significantly different between victims and control subjects four months after the rape.[24] Other studies that follow up rape victims also show recovery by one year.[18, 25] In contrast, studies by Nadelson *et al.* and McCahill *et al.* indicate that many rape victims continue to have fearfulness, depression, fatigue, sleep disturbance, and difficulties with sexual adjustment for more than one year after the rape.[26, 27] None of these studies reports the length of clinical depression. Among the Pac Rim victims, 48 percent of those who suffered a major depressive episode continued to have depressive symptoms six months after the loss as compared to two percent of controls

during the same time period. In the Pac Rim victims, persistence of symptoms may be the result of a domino effect whereby the initial financial loss resulted in subsequent catastrophes such as loss of home or difficulty paying debts and taxes.

There is virtually no literature addressing the risk of psychiatric disorder in the elderly after violent criminal victimization. For example, the British Crime Survey showed that eight percent of victims of burglary suffered depression and sleeplessness, but results were not stratified by age.[28] Criminologists have instead focused on measuring levels of fear, avoidance, and isolation in the elderly after assaults. Most studies have shown that all of these behaviors are increased.[1] There was no evidence of an increase in avoidance or isolation after fraudulent victimization. Pac Rim victims and their controls had similar levels of social involvement as measured by frequency of socialization and number of contacts, church attendance, encounters with friends and relatives, and use of confidantes following the stressful events. It is not surprising that the elderly may perceive avoidance and isolation to have some deterrence value after assault or robbery. Pac Rim victims, on the other hand, were from the outset at increased risk of fraudulent victimization due to their high levels of social contact and affiliation, and most continued to be socially active even in the face of depression. Blum in his study of nonaffinity group based fraud victims found that loneliness and isolation preceded victimization, and that widowhood and lack of offspring were risk factors for deception. He hypothesized that isolation results in failure to "test ideas and lack of controls for foolish adventures."[10] In the Pac Rim fraud the sophistication of the fraud and the trust in the confidence man and other investors resulted in "idea testing" that led, in fact, to further fraudulent investing.

Determinants of Outcome Extent of victimization and other crime related factors can be examined as independent variables in determining outcome and recovery after violent crime. Sales *et al.* demonstrated that the degree of victimization as measured by the amount of violence in the attack was the most important contributor to short term emotional response, but this has not been duplicated in other studies.[29,30] Frank *et al.* found that increased pre-rape levels of psychiatric symptomatology and a history of suicidal ideation were associated with poorer adjustment and more depression after the trauma.[20] Subjects with prior psychiatric diagnoses were significanty more likely to meet criteria for a mental disorder in the aftermath of assault compared to subjects with no such history.[21] Burgess and Holstrom also found that women with a past psychiatric history were more likely to develop symptoms of depression and suicidality than those without such a history.[31] Atkeson *et al.* found that decreased support after assault was associated with increased depression four and eight months after rape.[24] Burgess and Holmstrom also noted a significant association between the level of support and recovery from stress both several

months and 4 to 6 years after rape.[32] Similarly the degree of victimization (as measured by increased financial loss and decreased financial resources) and a previous history of major depressive disorder were the most important variables in predicting the development of major depressive disorder in Pac Rim victims after the fraud. However, there were no differences between depressed and nondepressed Pac Rim victims in measures of social support, including numbers and types of visits to friends and relatives, memberships in clubs and groups, and uses of confidantes.

There are no studies that assess the importance of financial loss associated with burglary or robbery in determining psychiatric outcome. However, only 18 percent of personal crimes and 25 percent of household crimes resulted in financial losses greater than $250 for those over age 65 earning annual incomes greater than $25,000.[13] This financial loss is several orders of magnitude less than those incurred by the Pac Rim victims.

Discussion

Despite the limited research on the psychiatric sequelae of criminal victimization and the differences in study design, several tentative conclusions can be drawn in the comparison of white collar crime victims with the victims of violent crime.

First, victims of white collar crime, as opposed to victims of violent crime, tend to be older, more affluent, and relatively more likely to be female. Thus, the term 'white collar' not only describes the deceivers but the deceived.

Second, both similarities and differences between these victim groups may have implications for assessment and treatment by the clinician. Generalized anxiety disorder and major depressive disorder are the most common psychiatric complications of both types of victimization. The incidence of posttraumatic stress disorder (PTSD) after violent victimization is unknown as systematic examination for PTSD symptoms has not been done. Dementia and mania, which need to be excluded in cases of financial loss, were absent in the Pac Rim victims. In both white collar and violent victimization, a previous history of psychiatric illness and the degree of victimization are important variables in predicting risk of psychiatric disturbance. More specifically in the case of fraud victims, the clinician should be aware that a previous history of depression, a large financial loss, and a decreased standard of living may increase the risk for major depressive disorder and suicidality and that the depression may be lengthier and more severe than most 'reactive depressions.' Treatment of alcohol abuse may improve coping and prevent recidivism after violent victimization such as rape; however, alcohol abuse was rare in Pac Rim victims and was not a risk factor for depression.

After violent victimization such as rape, adequate social support is an important predictor of good recovery and remittance of psychiatric symptoms. Victims of Ponzi schemes, on the other hand, have been noted by criminologists

to be at risk for victimization due to membership in affinity groups. The study of the Pac Rim victims indicates that this strong social network remains intact after victimization and offers no apparent protective value against depressive disorders. Thus, therapeutic strategies that attempt to increase social support may be of little value after this kind of financial loss.

The role of individual psychotherapy and pharmacologic intervention in the treatment of psychiatric disorders that develop in fraud victims remains unclear and requires further investigation. In the face of such significant psychiatric illness in victims of fraudulent financial loss, primary prevention could well be important. Education of groups at risk such as members of churches and employees of government agencies and large businesses, regarding the existence and dangers of such speculative investments, may be a valuable and cost effective approach to the prevention of fraudulent victimization.

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